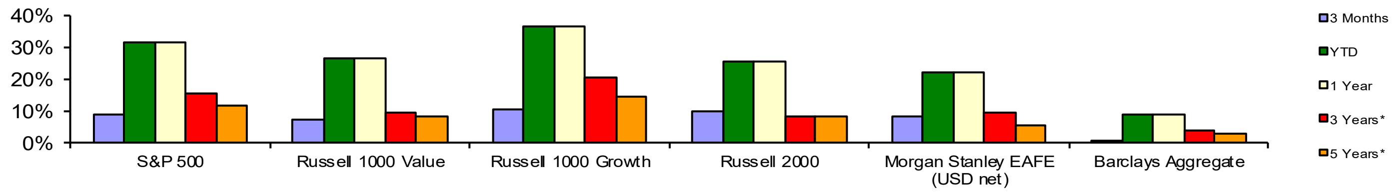
MARKET OVERVIEW | Timberline Investment Management, LLC | 12/31/19

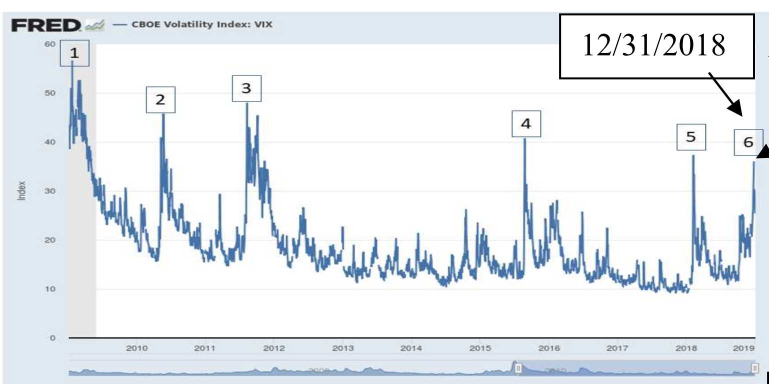
Market Description	Index	3 Months	YTD	1 Year	3 Years*	5 Years*
General Stock Market	S&P 500	9.07%	31.49%	31.49%	15.27%	11.70%
Large Company Value	Russell 1000 Value	7.41%	26.54%	26.54%	9.68%	8.29%
Large Company Growth	Russell 1000 Growth	10.62%	36.39%	36.39%	20.49%	14.63%
Small Companies	Russell 2000	9.94%	25.52%	25.52%	8.59%	8.23%
International Stocks	Morgan Stanley EAFE (USD net)	8.17%	22.01%	22.01%	9.56%	5.67%
General Bond Market	Barclays Aggregate	0.18%	8.72%	8.72%	4.03%	3.05%



ECONOMIC OVERVIEW

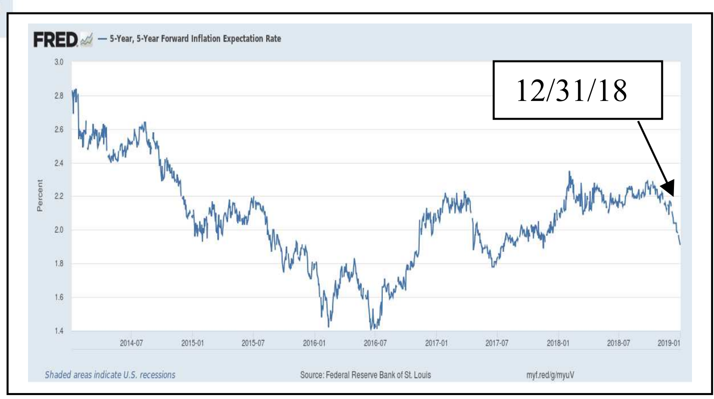
	Statistic	Most Recent*	3-month Prior	3-month Change	12-month Prior	12-month Change
Long-term Rates	10-year Treasury Yield	1.92%	1.68%	**14.29%**	2.69%	**-28.62%**
Short-term Rates	Effective Fed Funds Rate	1.55%	1.90%	**-18.42%**	2.40%	**-35.42%**
Consumer Inflation	Consumer Price Index	257.936	256.300	**0.64%**	252.760	**2.05%**
Wage Growth	Average Hourly Earnings	28.32	28.12	**0.71%**	27.53	**2.87%**
Job Growth	Total Non-farm Payrolls	152,383	151,830	**0.36%**	150,275	**1.40%**
Average Workweek Hours	Avg. Weekly Work Hours	34.3	34.4	**-0.29%**	34.5	**-0.58%**
Economic Output	Gross Domestic Product	21,543	21,340	**0.95%**	20,750	**3.82%**

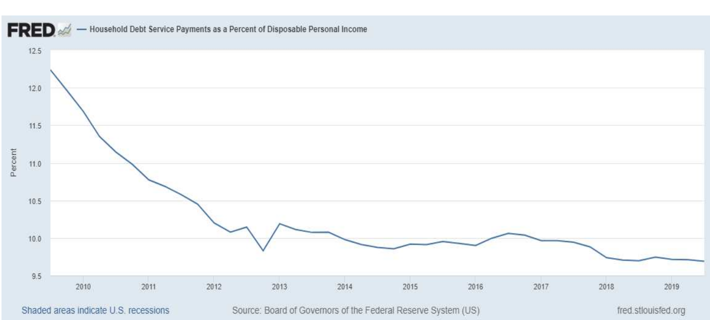
Economic data is the most recent available as of date of publication. Data is from sources believed to be reliable but is not guaranteed and is subject to revision without notice. Data is provided for your analysis and used at your own risk. Market returns greater than 1 year are annualized. Timberline provides information herein for informational purposes only and should not be considered an investment recommendation.



STOCK MARKET VOLATILITY (10 years) – We obviously have experienced greater volatility recently (#6). At previous peaks, here are 1-year S&P 500 returns after volatility peaks: (#1) 1/20/09 +44.8%; (#2) 5/21/10 +25.0%; (#3) 8/10/11 +28.3%; (#4) 8/25/15 +18.9%; (#5) 2/5/18 ?; (#6) ?. Previous experience suggest volatility spikes are buying opportunities and potentially indicative of panic-oriented selling. The past may not be indicative of the future, but it is still good to know. (12/31/18 comment)

EXPECTED INFLATION IMPLIED BY THE US TREASURY BOND MARKET – I wonder why the Fed found it necessary to raise short-term interest rates with an inflation outlook like this??? (12/31/18 comment)





HOUSEHOLD DEBT SERVICE AS A PERCENTAGE OF DISPOSABLE INCOME (10 years) – Though personal debt balances are higher, debt service as a percentage of disposable income remains low.

Data sources: Frank Russell, Ishares, St. Louis Federal Reserve, MSCI

This 12/31/19 newsletter initially looks back 12 months as a reminder of the painful situation we faced at the end of 2018. Back then, the S&P 500 for 4q18 was down -13.52% that included one of the worst December's on record at -9.03%. With that, here is Timberline's 12/31/18 commentary providing, in my mind, a starting perspective for the very strong returns of 2019:

"For the past three months, investors had to deal with China trade issues, a controversial interest rate increase from the Federal Reserve, changes and turmoil in the political world, a partial government shutdown, a slowing China economy, and an inversion in part of the Treasury yield curve that was interpreted by some as a sign of future trouble. Also adding to the frenzy was, in my opinion, very poor communication from the Federal Reserve and a heavy level of doom and gloom from many media sources.

In a fair debate about economic prospects, performance of the stock market is a fair point but it is hardly the only point. Granted, China appears to be slowing as are domestic car and home sales. However, overall corporate earnings, job growth, wage growth, retail sales, and modest inflation remain solid factors. Overall, a comprehensive look at market and economic prospects hardly seem as one-sided as recent market movements imply.

At this time, I think it is best to comprehensively look forward. Many with a negative outlook have taken current market weakness as a trend toward further economic and market weakness. However, the Federal Reserve looks like it is going down a more "data dependent" trail and acknowledging that the current level of short-term interest rates may be near a neutral level. I am expecting that the Federal Reserve issue will be declining or going away in pretty short order. Regarding the yield curve warning, I believe extremely low global interest rates are distorting domestic interest rates and the value of the yield curve as a leading indicator. The government shutdown will eventually go away and government turmoil will probably lead to gridlock which keeps this part of the outlook relatively predictable. This leaves the mentioned positive economic factors as well as the China trade issues."

In hindsight, December of 2018 was a buying opportunity but only for a brief bit of time. By the end of February, most of the 4q18 decline had been erased as the Fed reversed course with three 2019 rate cuts and strength was found in consumer spending and employment conditions. Though 2019 corporate earnings were relatively flat, such results defied the expectations of something worse. Trade negotiations developed in a positive manner and the Fed settled in with a reasonable short-term rate range consistent with market inflation expectations. All said, 2019 was a period of sizable changes in expectations and a strong equity return period with the S&P 500's annual return of +31.49% that was capped by 4q19's +9.07% return. In the fixed income area, domestic long-term rates experienced an annual decline while German and Japan long-term rates remained strange at negative levels. With that, the domestic Barclays Aggregate fixed income index was up 8.72% for the year, but only +.18% for the last three months as long-term rates moved modestly higher.

Along with a reversal of expectations in 2019, I believe forward expectations for 2020 also played a role in 2019 returns. Holiday sales and employment reports suggested persistent consumer strength, the Fed looked to be on a rational course, trade negotiations progressed, and analysts have projected 2020 corporate earnings to be up about 9%. History says such projections are usually optimistic but growth even at a lower level should be welcomed. Outside of financial factors, it is obviously a political year but conditions are early and undefined in many ways. Despite the political uncertainties, the long-term investment outlook remains favorable in my mind. However, I do not think robust returns similar to 2019 should be expected for 2020. The main reason has to do with expectations again. I took the liberty of including a couple charts from the 12/31/18 Timberline report on the first page of this report. One of those charts indicate the high level of investor anxiety as implied by extreme equity market volatility. From this chart you can see that the 12/31/18 level of volatility was at a level that historically has been an indicator of a buying opportunity and it proved to be true for 2019. Though such conditions do not exist at this time, I still believe the fundamental long-term outlook remains favorable.

As always, I hope you find this to be helpful. Thank you again for your business and interest in Timberline. Please call or email with any questions and best wishes for a great 2020.

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